

Message Text

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C O N F I D E N T I A L BRASILIA 5877

EXDIS

E.O.11652: GDS

TAGS: ETRD, BR

SUBJECT: POSSIBLE EXPORT SUBSIDIES ON SOYBEAN OIL

REF: A. BRASILIA 5808 B. BRASILIA 4563

1. AS A FOLLOW-UP TO DISCUSSIONS HELD DURING SECRETARY BUTZ'S VISIT. EMBASSY IS GATHERING ADDITIONAL DATA ON THE MARKETING OF SOYBEANS AND SOYBEAN PRODUCTS BY BRAZIL. TOGETHER WITH REFTELS, THIS MESSAGE IS BEING TRANSMITTED AS AN INTERIM REPLY, AND ITS FINDINGS ARE PRELIMINARY. WE ARE DEVELOPING ADDITIONAL INFORMATION WHICH WE EXPECT WILL PROVIDE THE BASIS FOR A MORE CONCLUSIVE MESSAGE.

2. AUGMENTING THE DETAILS OF REFTEL A, WE WISH TO ADD THE FOLLOWING:

A. IT APPEARS THAT THE BRAZILIAN SOYBEAN MARKET IS DIVIDED INTO TWO PARTS: ONE FOR EXPORT AND ONE FOR DOMESTIC CONSUMPTION. THIS DICHOTOMY IS MADE POSSIBLE BY A SYSTEM OF EXPORT LICENSES ADMINISTERED BY CACEX. ANNUALLY THE GOVERNMENT DECIDES HOW MUCH OF THE CROP IS TO BE EXPORTED AND HOW MUCH IS TO BE USED DOMESTICALLY, AND THROUGH THE ISSUANCE (OR DENIAL) OF LICENSES THUS INFLUENCES AND REGULATES THE FLOW OF PRODUCE INTO EXPORTS AND TO DOMESTIC MARKETS. (IN ADDITION, OF COURSE, EXPECTATIONS OF FUTURE PRICE MOVEMENTS BY PRODUCERS AND BROKERS

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ARE IMPORTANT FACTORS IN THE MOVEMENT OF SOYBEANS INTO

THE WORLD MARKET.)

B. THIS QUANTITATIVE REGULATION OF EXPORTS, IS REFLECTED IN PRICES. WHILE THE DOMESTIC AND EXPORT PRICE SEEM TO FLUCTUATE ROUGHLY IN PARALLEL, THEY ARE SEPARATE AND DISTINCT. PRESENTLY, THE EXPORT PRICE OF SOYBEANS IS HIGHER THAN THE DOMESTIC PRICE. IF THE MARKET WERE PERFECT AND AN ECONOMICALLY EFFECTIVE EXPORT SUBSIDY SYSTEM WERE IN EXISTENCE, THE REVERSE RELATIONSHIP SHOULD OBTAIN, WITH DOMESTIC PRICE BEING HIGHER THAN THE EXPORT PRICE BY THE AMOUNT OF THE SUBSIDY. AT PRESENT THE DOMESTIC PRICE OF SOYBEANS (FOR INDUSTRIAL USE) IS IN THE CR\$77-80 RANGE, PER 60 KILO BAG, WHILE THE EXPORT PRICE IS ABOUT CR\$110 FOB BRAZILIAN PORT, BASED ON THE ROTTERDAM QUOTATION FOR BRAZILIAN SOYBEANS. IT SHOULD BE NOTED THAT THESE TWO PRICES ARE NOT QUITE COMPARABLE BECAUSE OF TRANSPORTATION COSTS, I.E. THE COST INVOLVED IN GETTING THE SOYBEAN FROM THE INTERIOR COLLECTION POINT TO BRAZILIAN PORTS. INFORMATION FROM RELIABLE TRADE SOURCES, PROVIDED TO AGRIC. ATTACHE, INDICATES THAT THE PRESENT COST OF TRANSPORTATION OF BEANS FROM THE INTERIOR TO PORT AVERAGES CR\$7.6 PER 60 KILO BAG. THUS, THE DOMESTIC PRICE, ON AN FOB EQUIVALENT BASIS, IS CR\$84.6 - 87.6 PER BAG.

C. AS NOTED IN REFTEL A, THE CURRENT MINIMUM SUPPORT PRICE OF CR\$60 PER 60 KILO BAG IS NOT OPERATIVE, BUT, AS A FLOOR, IS IMPORTANT IN BUTTRESSING FARMERS' CONFIDENCE. THE RECENTLY BEGUN PURCHASE OF 1 MILLION METRIC TONS BY COBEC AT CR\$75 PER 60 KILO BAG WAS INTENDED TO STRENGTHEN THE MARKET BUT, SINCE THE ANNOUNCEMENT OF THE SOVIET PURCHASES OF WHEAT AND THE MARKET'S ASSUMPTION OF A SOVIET INTENTION TO BUY, PRICES HAVE MOVED HIGHER, AND, APPARENTLY, PURCHASES BY COBEC HAVE STOPPED, AT LEAST TEMPORARILY.

D. WITH RESPECT TO THE EXPORT INCENTIVE SYSTEM, AS REFTEL B POINTED OUT, THE ICM AND IPI CREDITS ARE APPLICABLE TO ALL PROCESSED PRODUCTS. BUT AS THAT MESSAGE ALSO NOTED, THE EXTENT TO WHICH EXPORTERS ARE ABLE TO UTILIZE THESE CREDITS IS A FUNCTION, AMONG OTHER THINGS, OF THE PROPORTION OF TOTAL SALES WHICH IS EXPORTED, I.E. THE EXISTENCE OF ICM AND IPI TAX LIABILITIES TO WHICH THESE CREDITS ARE APPLIED. TO

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OBTAIN AN ACCURATE READING OF THE UTILIZATION OF THESE CREDITS WOULD REQUIRE AN ANALYSIS OF THE FISCAL DATA OF THE EXPORTING FIRMS.

3. THIS MESSAGE HAS BEEN CLASSIFIED EXDIS BECAUSE OF THE GREAT SENSITIVITY SURROUNDING THE SOYBEAN PROBLEM IN BRAZIL AND THE EMBASSY'S CONCERN THAT THE EXISTENCE OF THIS INQUIRY NOT BECOME KNOWN TO THE

BRAZILIAN SIDE AT THIS STAGE.
CRIMMINS

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